SUMMARY OF FINANCIAL IMPACT OF THE PROPOSED EC&R DEVELOPMENT, LLC PROJECT ON THE FINANCES OF THE RAYMONDVILLE INDEPENDENT SCHOOL DISTRICT UNDER A REQUESTED CHAPTER 313 PROPERTY VALUE LIMITATION

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Final Report

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TEXAS SCHOOL FINANCE EXPERTS

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Introduction

EC&R Development, LLC (EC&R) has requested that the Raymondville Independent School District (RISD) consider granting a property value limitation under Chapter 313 of the Tax Code for a new renewable electric wind generation project. This project reflects a proposed expansion to an EC&R project subject to a value limitation that was previously approved on December 14, 2009. An amended application was submitted to RISD on March 1, 2011. EC&R proposes to invest $52.8 million to construct the expanded wind energy project in RISD.

The EC&R project is consistent with the state's goal to "encourage large scale capital investments in this state." When enacted as House Bill 1200 in 2001, the original language in Chapter 313 of the Tax Code made companies engaged in manufacturing, research and development, and renewable electric energy production eligible to apply to school districts for property value limitations. Subsequent legislative changes expanded eligibility to clean coal projects, nuclear power generation and data centers, among others.

School Finance Mechanics

Under the provisions of Chapter 313, RISD may offer a minimum value limitation of $10 million. Based on the amended application, the qualifying time period began with the 2010-11 school year. The full value of the investment is expected to reach $52.85 million in 2012-13, with depreciation expected to reduce the taxable value of the project over the course of the value limitation agreement.

The provisions of Chapter 313 call for the project to be fully taxable in the 2010-11and 2011-12 school years, unless the District and the Company agree to an extension of the start of the qualifying time period. For the purpose of this analysis, it is assumed that the qualifying time period will be the 2010-11 and 2011-12 school years. Beginning in the 2012-13 school year, the project would go on the local tax roll at $10 million and remain at that level of taxable value for eight years for maintenance and operations taxes. Based on the description in the application, the EC&R project would be constructed during the latter part of calendar 2011 in order to meet the qualified investment requirement under Chapter 313. The full taxable value of the project would be subject to debt service taxes on voter-approved bond issues throughout the limitation period and beyond, with RISD currently levying a $0.287 I&S tax rate.

Under the current school finance system, the property values established by the Comptroller's Office that are used to calculate state aid lag by one year, a practical consequence of the fact that the Comptroller's Office needs this time to conduct their property value study and now the planned audits of appraisal district operations in alternating years. A taxpayer receiving a value limitation pays M&O taxes on the reduced value for the project in years 3-10 and receives a tax bill for I&S taxes based on the full project value throughout the qualifying and value limitation period (and thereafter). The school funding formulas use the Comptroller's property values that reflect a reduction due to the property value limitation in years 4-11 as a result of the one-year lag in property values.

For the school finance system that operated prior to the approval of House Bill 1 (HB 1) in the 2006 special session, the third year was typically problematical for a school district that approved a Chapter 313 value limitation. HB 1 established a "target" revenue system per student that has the effect of largely neutralizing the third-year revenue losses associated with Chapter 313 property value limitations, at least up to a district's compressed M&O tax rate. The additional four cents of tax effort that a district may levy at board discretion are subject to an enriched level of equalization and operate more like the pre-HB 1 system. A value limitation must be analyzed for any potential revenue loss associated with this component of the M&O tax levy. For tax effort in excess of the compressed plus six cents rate, equalization and recapture occur at the level of $319,500 per weighted student in average daily attendance (WADA).

Under HB 3646—the school finance system changes approved by the Legislature in 2009—the starting point is the target revenue provisions from HB 1, that are then expanded through the addition of a series of school funding provisions that had operated previously outside the basic allotment and the traditional formula structure, as well as an additional $120 per WADA guarantee.

Under the provisions of HB 3646, school districts do have the potential to earn revenue above the $120 per WADA level, up to a maximum of $350 per WADA above current law. Initial estimates indicate that about 750 school districts are funded at the minimum $120 per WADA level, while approximately 250 school districts are expected to generate higher revenue amounts per WADA. This is significant because changes in property values and related tax collections under a Chapter 313 agreement once again have the potential to affect a school district's base revenue, although probably not to the degree experienced prior to the HB 1 target revenue system. Based on the analyses presented here, it appears that RISD remains a "hold-harmless" district held at the $120 per WADA minimum under the value limitation scenario.

One key element in any analysis of the school finance implications is the provision for revenue protection in the agreement between the school district and the applicant. In the case of the EC&R project, the agreement calls for a calculation of the revenue impact of the value limitation in years 3-10 of the agreement, under whatever school finance and property tax laws are in effect in each of those years. This meets the statutory requirement under Section 313.027(f) (1) of the Tax Code to provide school district revenue protection language in the agreement.

Underlying Assumptions

There are several approaches that can be used to analyze the future revenue stream of a school district under a value limitation. Whatever method is used, a reasonable analysis requires the use of a multi-year forecasting model that covers the years in which the agreement is in effect. The Chapter 313 application now requires 15 years of data and analysis on the project being considered for a property value limitation.

The approach used here is to maintain static enrollment and property values in order to isolate the effects of the value limitation under the school finance system. While the new target revenue system appears to limit the impact of property value changes for a majority of school districts, changes in underlying property value growth have the potential to influence the revenue stream of a number of school districts.

Student enrollment counts are held constant at 2,031 students in average daily attendance (ADA) in analyzing the effects of the EC&R project on the finances of RISD. The District's local tax base reached $391 million for the 2010 tax year. The underlying $391 million taxable value for 2010-11 is maintained for the forecast period in order to isolate the effects of the property value limitation. RISD is not a property-wealthy district, with wealth per weighted ADA or WADA of approximately $124,137 for the 2010-11 school year. These assumptions are summarized in Table 1.

School Finance Impact

A baseline model was prepared for RISD under the assumptions outlined above through the 2025-26 school year. Beyond the 2010-11 school year, no attempt was made to forecast the 88th percentile of property wealth that influences future state funding. In the analyses for other districts and applicants on earlier projects, these changes appeared to have little impact on the revenue associated with the implementation of the property value limitation, since the baseline and other models incorporate the same underlying assumptions.

Under the proposed agreement, a second model is established to make a calculation of the "Baseline Revenue" by adding the value of the proposed EC&R facility to the model, but without assuming that a value limitation is approved. The results of the model are shown in Table 2.

A third model is developed which adds the EC&R value but imposes the proposed property value limitation effective in the third year, which in this case is the2012-13 school year. The results of this model are identified as "Value Limitation Revenue Model" under the revenue protection provisions of the proposed agreement (see Table 3). An M&O tax rate of $1.04 is used throughout this analysis.

A summary of the differences between these models is shown in Table 4. The model results show approximately $16.3 million a year in net General Fund revenue for RISD.

Under these assumptions, RISD would experience a revenue loss as a result of the implementation of the value limitation in the Raymondville Independent School District school year (-$200,436). The revenue reduction results from the mechanics of the four cents equalized at a high level, which reflect the one-year lag in values associated with the property value study. It appears that smaller differences persist between the two models over the course of the agreement, in part due to deductions made in state property value study that do not sufficiently offset the reduction in M&O taxes resulting from the impact of the value limitation agreement.

One change that has been incorporated into these models is a more precise estimate of the deduction from the property value study conducted by the Comptroller's Office. At the school district level, a taxpayer benefiting from a property value limitation has two property values assigned by the local appraisal district for their property covered by the limitation: (1) a reduced value for M&O taxes, and (2) the full taxable value for I&S taxes. This situation exists for the eight years that the value limitation is in effect.

Under the property value study conducted by the Comptroller's Office, however, only a single deduction amount is calculated for a property value limitation and the same value is assigned for the M&O and I&S calculations under the school funding formulas. The result of this interpretation is that a "composite" value for a school district with a Chapter 313 agreement is calculated, by averaging the impact of the value reduction across the M&O and I&S tax levies. The result of the composite deduction calculation is that the amount deducted for the value limitation from the state value study is always less than the tax benefit that has been provided for the taxpayer receiving the value limitation in school districts that levy M&O taxes only.

In the case of RISD, the calculated lower reduction in the state property value relative to the M&O benefit to be received by the taxpayer does not appear to be substantial. In large part this results because the underlying tax base is substantially larger than the proposed project.

Impact on the Taxpayer

Table 5 summarizes the impact of the proposed property value limitation in terms of the potential tax savings under the property value limitation agreement. The focus of this table is on the M&O tax rate only. As noted previously, the property is fully taxable in the first two years under the agreement, although it is not anticipated that the project value will appear until the third year of the agreement. A $1.04 per $100 M&O rate is assumed in 2010-11 and thereafter.

Under the assumptions used here, the potential tax savings from the value limitation total $2.8 million over the life of the agreement. In addition, EC&R is not expected to be eligible for a tax credit for taxes paid on value in excess of the value limitation in each of the first two years, due to no anticipated value on the tax rolls in each of those years. The key RISD revenue losses are associated with the additional four-cent levy equalized at a high level and expected to total approximately -$313,784 over the course of the agreement. In total, the potential net tax benefits are estimated to total $2.5 million over the life of the agreement.

Facilities Funding Impact

The EC&R project remains fully taxable for debt services taxes, with RISD currently levying a $0.287 I&S rate. The value of the EC&R project is expected to depreciate over the life of the agreement and beyond, but full access to the additional value will add to the District's projected wealth per ADA that is currently well below what is provided for through the state's facilities program. The additional value is expected to help reduce the District's current I&S tax rate to $0.224 per $100 in 2012-13—$0.063 cents of tax effort. Once the state property value study for 2012 reflects the project value and it is used to calculate state facilities report in the 2013-14 school year, the I&S rate is likely to revert to its previous level as state facilities support is reduced in response to the increased value of the project.

The EC&R project is not expected to affect RISD in terms of enrollment. Continued expansion of the renewable energy industry could result in additional employment in the area and an increase in the school-age population, but this project is unlikely to have much impact on a stand-alone basis.

Conclusion

The proposed EC&R wind energy project enhances the tax base of RISD. It reflects continued capital investment in renewable electric energy generation, one of the goals of Chapter 313 of the Tax Code, also known as the Texas Economic Development Act.

Under the assumptions outlined above, the potential tax benefits under a Chapter 313 agreement could reach an estimated $2.5 million over the course of the agreement. This amount is net of any anticipated revenue losses for the District. The additional taxable value also enhances the tax base of RISD in meeting its future debt service obligations, although this may have a limited short-term impact.

Table 1 – Base District Information with EC&R Development, LLC Project Value and Limitation Values

Year of Agreement	School Year	ADA	WADA	M&O Tax Rate	I&S Tax Rate	CAD Value with Project	CAD Value with Limitation	CPTD with Project	CPTD With Limitation	CPTD Value with Project per WADA	CPTD Value with Limitation per WADA
1	2010-11	2,022.00	3,034.72	$1.0400	$0.2870	$370,487,788	$370,487,788	$387,354,473	$387,354,473	$127,641	$127,641
2	2011-12	1,910.99	2,921.92	$1.0400	$0.2240	$370,487,788	$370,487,788	$337,268,854	$337,268,854	$115,427	$115,427
3	2012-13	1,853.66	2,861.25	$1.0400	$0.2240	$423,337,788	$380,487,788	$337,268,854	$337,268,854	$117,875	$117,875
4	2013-14	1,853.66	2,861.25	$1.0400	$0.2550	$420,697,788	$380,487,788	$390,118,854	$354,862,525	$136,346	$124,024
5	2014-15	1,853.66	2,861.25	$1.0400	$0.2550	$418,057,788	$380,487,788	$387,478,854	$355,186,653	$135,423	$124,137
6	2015-16	1,853.66	2,861.25	$1.0400	$0.2550	$415,407,788	$380,487,788	$384,838,854	$354,666,808	$134,500	$123,955
7	2016-17	1,853.66	2,861.25	$1.0400	$0.2550	$412,767,788	$380,487,788	$382,188,854	$354,144,993	$133,574	$123,773
8	2017-18	1,853.66	2,861.25	$1.0400	$0.2550	$410,127,788	$380,487,788	$379,548,854	$353,625,147	$132,652	$123,591
9	2018-19	1,853.66	2,861.25	$1.0400	$0.2550	$407,487,788	$380,487,788	$376,908,854	$353,105,302	$131,729	$123,410
10	2019-20	1,853.66	2,861.25	$1.0400	$0.2550	$404,837,788	$380,487,788	$374,268,854	$352,585,456	$130,806	$123,228
11	2020-21	1,853.66	2,861.25	$1.0400	$0.2550	$402,197,788	$402,197,788	$371,618,854	$352,063,642	$129,880	$123,046
12	2021-22	1,853.66	2,861.25	$1.0400	$0.2550	$399,557,788	$399,557,788	$368,978,854	$368,978,854	$128,957	$128,957
13	2022-23	1,853.66	2,861.25	$1.0400	$0.2550	$396,917,788	$396,917,788	$366,338,854	$366,338,854	$128,035	$128,035
14	2023-24	1,853.66	2,861.25	$1.0400	$0.2550	$394,267,788	$394,267,788	$363,698,854	$363,698,854	$127,112	$127,112
15	2024-25	1,853.66	2,861.25	$1.0400	$0.2550	$391,627,788	$391,627,788	$361,048,854	$361,048,854	$126,186	$126,186

Table 2– "Baseline Revenue Model"--Project Value Added with No Value Limitation

Year of Agreement	School Year	M&O Taxes @ Compressed Rate	State Aid	Additional State Aid-Hold Harmless	Excess Formula Reduction	Recapture Costs	Additional Local M&O Collections	State Aid From Additional M&O Tax Collections	Recapture from the Additional Local Tax Effort	Total General Fund
1	2010-11	$3,283,083	$10,854,456	$1,443,404	$0	$0	$428,043	$1,113,404	$0	$17,122,391
2	2011-12	$3,285,730	$10,846,458	$873,292	$0	$0	$428,388	$1,277,535	$0	$16,711,402
3	2012-13	$3,675,619	$10,597,633	$422,729	$0	$0	$479,221	$1,389,504	$0	$16,564,706
4	2013-14	$3,650,526	$10,100,389	$934,067	$0	$0	$475,949	$1,128,587	$0	$16,289,518
5	2014-15	$3,625,706	$10,124,678	$934,597	$0	$0	$472,713	$1,131,772	$0	$16,289,467
6	2015-16	$3,601,325	$10,148,968	$934,688	$0	$0	$469,534	$1,135,094	$0	$16,289,610
7	2016-17	$3,577,035	$10,173,349	$934,597	$0	$0	$466,368	$1,138,489	$0	$16,289,838
8	2017-18	$3,552,746	$10,197,638	$934,597	$0	$0	$463,201	$1,141,846	$0	$16,290,028
9	2018-19	$3,528,457	$10,221,927	$934,597	$0	$0	$460,034	$1,145,205	$0	$16,290,220
10	2019-20	$3,504,076	$10,246,216	$934,689	$0	$0	$456,855	$1,148,536	$0	$16,290,373
11	2020-21	$3,473,794	$10,270,598	$940,589	$0	$0	$452,907	$1,149,960	$0	$16,287,848
12	2021-22	$3,450,234	$10,294,887	$939,860	$0	$0	$449,836	$1,153,551	$0	$16,288,368
13	2022-23	$3,426,673	$10,319,176	$939,132	$0	$0	$446,764	$1,157,149	$0	$16,288,895
14	2023-24	$3,403,024	$10,343,465	$938,493	$0	$0	$443,680	$1,160,725	$0	$16,289,387
15	2024-25	$3,379,463	$10,367,846	$937,672	$0	$0	$440,609	$1,164,383	$0	$16,289,973

Table 3– "Value Limitation Revenue Model"--Project Value Added with Value Limit

Year of Agreement	School Year	M&O Taxes @ Compressed Rate	State Aid	Additional State Aid-Hold Harmless	Excess Formula Reduction	Recapture Costs	Additional Local M&O Collections	State Aid From Additional M&O Tax Collections	Recapture from the Additional Local Tax Effort	Total General Fund
1	2010-11	$3,283,083	$10,854,456	$1,443,404	$0	$0	$428,043	$1,113,404	$0	$17,122,391
2	2011-12	$3,285,730	$10,846,458	$873,292	$0	$0	$428,388	$1,277,535	$0	$16,711,402
3	2012-13	$3,281,379	$10,597,633	$816,969	$0	$0	$427,821	$1,240,469	$0	$16,364,271
4	2013-14	$3,280,045	$10,424,764	$980,172	$0	$0	$427,647	$1,157,286	$0	$16,269,914
5	2014-15	$3,280,045	$10,421,781	$983,155	$0	$0	$427,647	$1,155,840	$0	$16,268,468
6	2015-16	$3,280,045	$10,426,564	$978,372	$0	$0	$427,647	$1,158,161	$0	$16,270,788
7	2016-17	$3,280,045	$10,431,365	$973,571	$0	$0	$427,647	$1,160,497	$0	$16,273,125
8	2017-18	$3,280,045	$10,436,148	$968,788	$0	$0	$427,647	$1,162,832	$0	$16,275,460
9	2018-19	$3,280,045	$10,440,931	$964,005	$0	$0	$427,647	$1,165,173	$0	$16,277,801
10	2019-20	$3,280,045	$10,445,714	$959,222	$0	$0	$427,647	$1,167,522	$0	$16,280,150
11	2020-21	$3,473,794	$10,450,515	$760,672	$0	$0	$452,907	$1,238,990	$0	$16,376,879
12	2021-22	$3,450,234	$10,294,887	$939,860	$0	$0	$449,836	$1,153,551	$0	$16,288,368
13	2022-23	$3,426,673	$10,319,176	$939,132	$0	$0	$446,764	$1,157,149	$0	$16,288,895
14	2023-24	$3,403,024	$10,343,465	$938,493	$0	$0	$443,680	$1,160,725	$0	$16,289,387
15	2024-25	$3,379,463	$10,367,846	$937,672	$0	$0	$440,609	$1,164,383	$0	$16,289,973

Table 4 – Value Limit less Project Value with No Limit

Year of Agreement	School Year	M&O Taxes @ Compressed Rate	State Aid	Additional State Aid-Hold Harmless	Excess Formula Reduction	Recapture Costs	Additional Local M&O Collections	State Aid From Additional M&O Tax Collections	Recapture from the Additional Local Tax Effort	Total General Fund
1	2010-11	$0	$0	$0	$0	$0	$0	$0	$0	$0
2	2011-12	$0	$0	$0	$0	$0	$0	$0	$0	$0
3	2012-13	-$394,240	$0	$394,240	$0	$0	-$51,400	-$149,035	$0	-$200,436
4	2013-14	-$370,481	$324,375	$46,106	$0	$0	-$48,303	$28,699	$0	-$19,604
5	2014-15	-$345,661	$297,103	$48,558	$0	$0	-$45,067	$24,068	$0	-$20,999
6	2015-16	-$321,280	$277,596	$43,684	$0	$0	-$41,888	$23,066	$0	-$18,821
7	2016-17	-$296,991	$258,016	$38,975	$0	$0	-$38,721	$22,008	$0	-$16,713
8	2017-18	-$272,701	$238,510	$34,191	$0	$0	-$35,554	$20,986	$0	-$14,568
9	2018-19	-$248,412	$219,004	$29,408	$0	$0	-$32,388	$19,969	$0	-$12,419
10	2019-20	-$224,031	$199,498	$24,533	$0	$0	-$29,209	$18,986	$0	-$10,223
11	2020-21	$0	$179,917	-$179,917	$0	$0	$0	$89,031	$0	$89,031
12	2021-22	$0	$0	$0	$0	$0	$0	$0	$0	$0
13	2022-23	$0	$0	$0	$0	$0	$0	$0	$0	$0
14	2023-24	$0	$0	$0	$0	$0	$0	$0	$0	$0
15	2024-25	$0	$0	$0	$0	$0	$0	$0	$0	$0

Table 5 - Estimated Financial impact of the EC&R Development, LLC Project Property Value Limitation Request Submitted to RISD at $1.04 M&O Tax Rate

Year of Agreement	School Year	Project Value	Estimated Taxable Value	Value Savings	Taxes Before Value Limit	Taxes after Value Limit	Tax Savings @ Projected M&O Rate	Tax Credits for First Two Years Above Limit	Tax Benefit to Company Before Revenue Protection	School District Revenue Losses	Estimated Net Tax Benefits
1	2010-11	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
2	2011-12	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
3	2012-13	$52,850,000	$10,000,000	$42,850,000	$549,640	$104,000	$445,640	$0	$445,640	-$200,436	$245,204
4	2013-14	$50,210,000	$10,000,000	$40,210,000	$522,184	$104,000	$418,184	$0	$418,184	-$19,604	$398,580
5	2014-15	$47,570,000	$10,000,000	$37,570,000	$494,728	$104,000	$390,728	$0	$390,728	-$20,999	$369,729
6	2015-16	$44,920,000	$10,000,000	$34,920,000	$467,168	$104,000	$363,168	$0	$363,168	-$18,821	$344,347
7	2016-17	$42,280,000	$10,000,000	$32,280,000	$439,712	$104,000	$335,712	$0	$335,712	-$16,713	$318,999
8	2017-18	$39,640,000	$10,000,000	$29,640,000	$412,256	$104,000	$308,256	$0	$308,256	-$14,568	$293,688
9	2018-19	$37,000,000	$10,000,000	$27,000,000	$384,800	$104,000	$280,800	$0	$280,800	-$12,419	$268,381
10	2019-20	$34,350,000	$10,000,000	$24,350,000	$357,240	$104,000	$253,240	$0	$253,240	-$10,223	$243,017
11	2020-21	$31,710,000	$31,710,000	$0	$329,784	$329,784	$0	$0	$0	$0	$0
12	2021-22	$29,070,000	$29,070,000	$0	$302,328	$302,328	$0	$0	$0	$0	$0
13	2022-23	$26,430,000	$26,430,000	$0	$274,872	$274,872	$0	$0	$0	$0	$0
14	2023-24	$23,780,000	$23,780,000	$0	$247,312	$247,312	$0	$0	$0	$0	$0
15	2024-25	$21,140,000	$21,140,000	$0	$219,856	$219,856	$0	$0	$0	$0	$0
					$5,001,880	**$2,206,152**	**$2,795,728**	**$0**	**$2,795,728**	**-$313,784**	**$2,481,944**

Tax Credit for Value Over Limit in First 2 Years	Year 1	Year 2	Max Credits
	$0	$0	$0
Credits Earned			$0
Credits Paid			$0
Excess Credits Unpaid			$0